

Message Text

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 7546

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E.O. 11652: N/A

TAGS: EINV, NI

SUBJECT: AMERICAN INTERNATIONAL INSURANCE COMPANY NEGOTIATIONS

REF: LAGOS 11687 AND PREVIOUS

SUMMARY: IN JANUARY 11 CONVERSATION AIIC REPS TOLD AMBASSADOR THAT IN LIGHT OF DISCUSSIONS THEY HAD LAST WEEK WITH FMG THEY ARE HOPEFUL OF REASONABLY SATISFACTORY OUTCOME TO NEGOTIATIONS FOR FMG'S ACQUISITION OF 49 PERCENT OF AIIC EQUITY. END SUMMARY

1. ACCORDING TO AIIC REPS NOTTINGHAM AND STATON FMG HAS CONTINUED TO INSIST THAT IT WILL PAY ONLY PAR VALUE OF TWO NAIRA FOR AIIC'S SHARES BUT HAS INDICATED WILLINGNESS TO ALLOW AIIC TO CAPITALIZE PART OF ITS RESERVES AND TO ISSUE NEW SHARES IN THAT AMOUNT, AND ALSO TO RETAIN AND PRESUMABLY REPATRIATE EARNINGS ACCRUED THROUGH DECEMBER 31, 1974, THAT FMG HAD EARLIER INSISTED SHOULD BE DISTRIBUTED TO SHAREHOLDERS. FMG APPARENTLY PERSUADED BY AIIC ARGUMENTS THAT CAPITALIZATION IN KEEPING WITH PRACTICES BRITISH INSURANCE FIRMS FOLLOWED HERE AND THAT UNLIKE AIIC, BRITISH FIRMS HAD ALSO RETAINED AND REMITTED PAST EARNINGS AS THEY OCCURED.

2. BY AIIC'S FIRST RECKONING TOTAL VALUE OF SHARES (AT NAIRA 2 PER SHARE) WOULD THUS INCREASE TO NEARLY NAIRA 500,000 AS AGAINST CURRENT NAIRA 56,000. ACCRUED EARNINGS TO BE RETAINED AND REPATRIATED COULD BE SLIGHTLY

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IN EXCESS OF NAIRA ONE MILLION.

3. FIGURE OF ONE MILLION NAIRA FOR EARNINGS TO BE RETAINED INCLUDES, HOWEVER, ABOUT NAIRA 600,000 THAT WOULD HAVE TO BE REALIZED BY RECASTING AIIC'S ACCOUNTS AND SHIFTING THAT AMOUNT OUT OF SPECIAL RESERVE FUND TO EARNINGS AND THAT ASPECT OF SITUATION WAS NOT DISCUSSED IN LAST WEEK'S MEETINGS WITH FMG. ACCORDING NOTTINGHAM/STATON, HOWEVER, RECASTING OF ACCOUNTS IN THAT WAY WOULD BE IN KEEPING WITH PRACTICES BRITISH INSURANCE FIRMS HAVE FOLLOWED HERE AND BECAUSE CURRENT DISCUSSIONS PROCEEDING ON RATIONALE THAT AIIC'S ACCOUNTS SHOULD BE PUT ON SAME BASIS AND ITS HOLDINGS TREATED SAME AS BRITISH FIRMS NOTTINGHAM/STATON HOPEFUL FMG WILL ASSENT. IF FMG RESISTS, THAT COULD PROVE SITCKING POINT FOR AIIC.

4. NEXT STEP IN PROCEEDINGS IS FOR AIIC TO HAVE ITS ACCOUNTANTS (PEAT MARWICK) RESTRUCTURE AIIC'S FINANCIAL STATEMENTS AND TO SUBMIT DETAILS TO FMG AS BASIS FOR HOPEFULLY FINAL NEGOTIATION. NOTTINGHAM/STATON ESTIMATE IT MAY BE MONTH OR TWO BEFORE AGREEMENT REACHED BUT THEY BELIEVE EVENTS NOW MOVING IN RIGHT DIRECTION.

5. NOTTINGHAM/STATON EXPRESSED APPRECIATION EMBASSY'S PAST EFFORTS AND UNDERTOOK KEEP EMBASSY INFORMED. AT THIS JUNCTURE HOWEVER THEY SAW NO NEED FOR EMBASSY ENGAGEMENT.
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